

Message Text

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ACTION NEA-10

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 ISO-00 L-03
FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00 COME-00
DODE-00 EB-08 FPC-01 H-01 INR-07 INT-05 NSAE-00
NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02 SS-15
STR-05 TRSE-00 ACDA-07 /143 W
-----081268 290901Z /20

R 290505Z SEP 77
FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC 4752
INFO AMEMBASSY ABU DHABI
AMEMBASSY CARACAS
AMEMBASSY JAKARTA
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY LONDON
AMCONSUL DHAHRAN

C O N F I D E N T I A L TEHRAN 8594

E.O. 11652: GDS
TAGS: ENRG, IR
SUBJ: IMPENDING REVISION OF CONSORTIUM/NIOC
RELATIONSHIP

1. DURING ROUTINE, SEMI-ANNUAL VISIT TO TEHRAN LAST
WEEK OF CONSORTIUM MEMBER COMPANIES' REPRESENTATIVES,
DR. EGHBAL, MANAGING DIRECTOR OF HIOC, INFORMED
CONSORTIUM REPS THAT THE TIME HAD COME FOR A REVISION
OF THE 1973 SALES AND PURCHASE AGREEMENT. INITIALLY,
THERE WAS SOME DOUBT THAT EGHBAL WAS SERIOUS IN PRO-
POSING THE BEGINNING OF NEGOTIATIONS SINCE HE HAD, IN
PREVIOUS SUCH MEETINGS, MADE SIMILAR DEMANDS WHICH
SUBSEQUENT EVENTS HAD PROVED TO HAVE BEEN "FOR THE
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RECORD" AND HAD NOT REFLECTED A SERIOUS DESIRE BY NIOC
TO BEING NEGOTIATIONS.

2. HOWEVER, THIS TIME NIOC IS DETERMINED TO PROCEED AND
LATTER HAS, SINCE THE MEETING BETWEEN EGHBAL AND THE
CONSORTIUM REPS, REQUESTED THAT NEGOTIATIONS BEGIN IN
TEHRAN ON NOVEMBER 1. OBVIOUSLY, NIOC HAS CONCLUDED THAT

IT IS IMPRACTICAL (OR AT LEAST UNNECESSARY) TO WAIT UNTIL THE FINAL DETAILS OF THE ARAMCO TAKEOVER BECOME OFFICIAL AND PUBLIC TO BEGIN TO REDEFINE AND LEGITIMIZE THE NATURE OF THE NIOC/CONSORTIUM RELATIONSHIP. MOREOVER, ALL PARTIES SEEM TO RECOGNIZE THAT THE BASIC DETAILS OF THE ARAMCO TAKEOVER ARE SUFFICIENTLY WELL DEFINED AND KNOWN, AND THAT FURTHER SIGNIFICANT DEVELOPMENTS MAY NOT OCCUR FOR YEARS.

3. NIOC HAS INFORMED THE CONSORTIUM THAT IT EXPECTS (A STRONGER WORD MIGHT WELL BE APPROPRIATE) THAT THE NEGOTIATIONS WILL RESULT IN THE SIGNING OF TWO BASIC AGREEMENTS--AN OFFTAKE AGREEMENT AND A SERVICE OR PRODUCTION CONTRACT. THE OFFTAKE AGREEMENT, IN THE VIEW OF NIOC, WOULD BE A MULTI-YEAR COMMITMENT ON THE PART OF THE CONSORTIUM TO EXPORT SPECIFIC, AGREED UPON QUANTITIES OF CRUDE AT OFFICIAL OPEC PRICES--I.E., THE CURRENT 22 CENT PER BARREL DISCOUNT WOULD BE ELIMINATED AND THERE WOULD BE NO DISCOUNT OR PREFERENTIAL CREDIT TERMS. FOR ITS PART, NIOC WOULD NOT REQUIRE OR EXPECT THAT ANY PART OF THE PRODUCTION FROM THE KHUZESTAN FIELDS BE RESERVED FOR NIOC DIRECT CRUDE EXPORT SALES. IN THE NEGOTIATIONS OVER THE OFFTAKE AGREEMENT, WE EXPECT THE PRINCIPAL PROBLEMS TO BE (1) THE TYPE OF PHASE-IN, PHASE-OUT PROVISIONS, (2) THE TERM OF VALIDITY OF THE AGREEMENT, AND (3) WHETHER THE CONSORTIUM WILL COMMIT ITSELF TO EXPORT QUANTITIES THAT ARE LARGE ENOUGH TO SATISFY NIOC.

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4. THE SECOND PART OF THE NEW ARRANGEMENT WOULD INVOLVE A CONTRACT BETWEEN NIOC AND THE CONSORTIUM BY WHICH THE CONSORTIUM (OR OSCO AS THE OPERATING ENTITY) WOULD BE RESPONSIBLE FOR PRODUCTION IN THE KHUZESTAN FIELDS. THE CONSORTIUM WOULD BE COMPENSATED BY NIOC BY PAYMENT OF AN ANNUAL LUMP SUM PAYMENT OR, AS SEEMS MORE LIKELY, A 12-15 CENT PER BARREL PRODUCTION FEE. NEGOTIATIONS OVER TERMS WILL BE LONG AND DIFFICULT AND WILL HAVE TO RESOLVE, INTER ALIA, (1) THE AMOUNT PAID BY NIOC FOR SERVICES RENDERED BY THE CONSORTIUM, (2) THE RANGE OF SERVICES PROVIDED BY THE CONSORTIUM -- I.E., WHO WILL PROVIDE NON-BASIC SERVICES, (3) COMPENSATION FOR SERVICES PROVIDED BY THE CONSORTIUM NOT DIRECTLY RELATED TO OIL PRODUCTION --I.E. EXPLORATION, GAS AND NGL PRODUCTION, ETC., AND (4) REQUIREMENTS FOR PROGRESSIVE IRANIANIZATION OF THE CONSORTIUM'S PRODUCING ACTIVITIES.

5. JUDGING FROM CONVERSATIONS WITH DR. MINA (NIOC DIRECTOR FOR INTERNATIONAL AFFAIRS), THE LOCAL CONSORTIUM REPRESENTATIVE, AND SOME OF THE VISITING REPRESENTATIVES FROM LONDON, WE ANTICIPATE THAT NIOC WILL HAVE LITTLE

OR NO SYMPATHY FOR ANY REQUESTS BY U.S. MEMBERS OF THE
CONSORTIUM FOR "SPECIAL CONSIDERATION" BECAUSE OF
TAXATION, ANTI-TRUST OR OTHER PROBLEMS THAT MIGHT BE
CREATED FOR THE U.S. MEMBERS BY THE ADOPTION OF A NEW
AGREEMENT(S). IT IS ALSO SAFE TO PREDICT THAT THE U.S.
CONSORTIUM MEMBERS WILL NOT GET MUCH HELP IN PLEADING
THEIR CASE FROM THEIR EUROPEAN PARTNERS, WHO COLLECTIVELY
OWN 60 PERCENT OF THE CONSORTIUM.
SULLIVAN

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